2013

The True Genius behind the Greatest Investor of Our Time: The Man, The Legend, the Oracle from Omaha, Warren Buffet

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If one desires to become a great scientist they should examine Isaac Newton, if one wishes to become a political leader they should study Abraham Lincoln; however, it may be equally said that if one hopes to become a successful investor they should learn a thing or two about Warren Buffet and the precedence he has established as an investor. Rarely does one come across individuals that interest us without limits or boundaries. Warren Buffet is just that type of person. In short, he is a fascinating man. Warren is no different than anyone of us, in that he is motivated by money; however, unlike most people who only dream of being the world's richest person, he made that dream a reality for himself! (1) Warren Buffet is known for being one of the best investors ever, but the catch is, Warren started off no richer than most Americans. His dreams and ambitions far outweighed his resources. Through his hard work and talent, both natural and accumulated, he became one of the richest individuals on earth. This is a story of what it takes to become increasingly rich and successful, this is the story of Warren Buffet: the child, the student, and the entrepreneur.

Warren the Child

Warren Buffet was born in Omaha, Nebraska in 1930. From the beginning he was not an ordinary child as his actions differentiated from the norm or his peers. As one begins to study his early childhood, one might often begin to think about what event or events enabled Warren to have this great talent of successfully picking companies that earned him enormous amounts of money? Furthermore, as one begins to wonder about the root of his talents, they might ponder on whether his talents were god- given or were they earned through experience? The answer is a combination of both, yet there is no doubt that he carries a natural talent that is easy to notice.

Also, it is important to note that no single event made Warren Buffet the man he is today. It is rather the snow ball effect of all the events that make him the business genius he is today. At a young age Warren was impressive to say the least, and it is more than fair to compare his talents to other young prodigies. In contrast, while some children are great at playing the piano or singing, Warren was a great businessman at a very young age.

Warren has had a lot of business ventures over the years. One of his first "businesses" was selling chewing gum at the age of 6. As Warren recalls, he was selling five different flavors, "Juicy Fruit, Double-mint, Spearmint and so on. I would buy packs of gum from by grandfather and go door to door in the neighborhood selling this stuff." An interesting part of his gum business came when some customers only wanted to buy one piece instead of the whole pack. As usual Warren had an answer for that problem, " I remember a women named Virginia Macoubrie saying, , I'll take one stick of Juicy Fruit.' I said, , We don't break packs of gum'- I mean I have got my principles."(2) The point being, at the age of 6, Warren could comprehend that selling one piece of gum would mean that he would lose money off the other four pieces of gum and it would leave him with hard to sell inventory. After selling gum, he switched to selling pop, mainly coke, noting that it was more profitable than gum. Although it may seem cute, a 6 year old child selling gum or pop for profit, it nevertheless gave Warren a worthy business experience that he used for his other ventures. After selling pop, he switched to selling magazines, having learned it was more profitable. Next, at the age of ten one of his friends and Warren sold used golf balls at a golf course, until someone reported them and they got kicked out by the cops. Also, at the age of 10 Warren took a job selling peanuts and popcorn at the University of Nebraska football games.(3) As one can easily see, Warren at a young age was an entrepreneur, he went from job to job, and from business to business. Consequently, his interest in business increased and so did his savings account. Additionally, one of the most important events in Warren's life came at the age of 10 when he visited the Stock Exchange. A family tradition, Howard, Warren's father, asked his kids three places they would like to visit at age 10. For Warren one of the three was the New York Stock Exchange. In New York, Warren had the opportunity to meet Sidney Weinberg, one of the most famous individuals in Wall Street at that time period. Warren briefly talked to Sidney and as he began to leave, something very foreshadowing occurred. As Warren recalls, "As I went out, he put his arm around me and he said, 'What Stock do you like Warren?' He'd forgotten it all the next day, but I remember it forever. "(4) From age 6 to 10, Warren had grown from starting small cute ventures, such as selling gum to eventually showing interest in buying shares of other companies. In comparison, today in our education system students often get involved in buying and selling stock (with fake money) during the last years of high-school and or during the early years of college; hence, Warren had us beat by 7-10 years or so.

Yet another important event in Warren's life came when he visited Benson Library. Once there he found a book titled, "*One Thousand Ways to Make $1,000.00.”* Hooked by its catchy title, Warren began reading the book. One of the stories in the book included establishing a business that owned weight machines. This business idea was particularly interesting to Warren, "The weight machines were easy to understand. I'd buy a weight machine and use the profits to buy more weight machines. Pretty soon I would have twenty weight machines - that's where the money is. The idea of compounding, what could be better than that?"(5) Although not the best business idea one has ever heard, it nevertheless showed how Warren came to understand the magic of compounding. He understood that capital, put to good use would buy him more capital and in theory the domino effect would kick it. While most of us work for money or income, Warren learned that the best way to make money was to be self-employed and have his money make more money. With this new and important knowledge Warren announced to Stu Erickson, his buddy, that he would be a millionaire by the time he was 35.

Around the same time period, at the age of 12 in 1942, Warren had saved up $120.00. He used that money to buy three shares of Cities Preferred Service which cost him $114.75. (6) Afterwards, Howard Buffett was successfully elected to the House of Representatives, which meant that Warren had to move from Omaha to Washington, D.C. In Washington, Warren took yet another job, this time as a newspaper delivery boy for *The Washington Post* (a company that he would later own a major stake in) and *Times-Herald.* Yet, another event that foreshadows Warren's special and unique talent came at the age of 14 when Warren filed his first income tax return. While most of us go to H&R Block or other firms to file our taxes, Warren did it all by himself at the age of 14! Additionally, he did such a good job of doing his taxes as a consequence he only paid $7, largely due to the fact that he deducted his bike and his wristwatch as business expenses. (7) Also, by age 14 he was successful in reaching his goal of saving up $1,000.

Warren into the Twenties

Second, interestingly enough, Warren was not a great student going into high school. He started to do better at school once his parents threatened to take away his jobs. Even with his new focus on school, Warren never neglected his goals and ambition of becoming a successful investor and businessmen. Moving forward, Warren still kept an eye on small potential ventures, yet gone were the days of Warren Buffet getting C's in class. As a matter of fact, Warren graduated 16th out of350 students in his high school class. In the fall of the following year, Warren enrolled at the University of Pennsylvania's Wharton Business School. (8) Although Warren did fine in his classes, he did not show much interest for the best business school in the nation. Still, Warren finished his undergraduate degree at the University of Nebraska. Next, Warren set his eyes on Harvard, but due to a bad interview he was rejected. As Warren started searching for other universities he found himself becoming increasingly more interested in the University of Columbia. Even though it was an Ivy League school, Warren was more interested in the teachers at Colombia rather than its prestige. Having fallen in love with the book, *The Intelligent Investor* by Benjamin Graham, he was surprised to see that the author taught courses at Columbia. Benjamin Graham would become one of the most important mentors for Warren, and the majority of Warren's business philosophy can be credited to Graham. *The Intelligent Investor* was and still is one of the most popular books on investing. In it Graham warns people about risky investing. The book made an important distinction between long term "safe" investing and speculation. From the start, Warren fell in love with the book, as Truman Wood his housemate said, "It was almost like he found a god." (9) For Warren the choice was very clear. He was disappointed that he did not get accepted to Harvard but he wanted to earn a great opportunity in Columbia learning from his mentor. Shortly after he applied to Columbia he received a letter noting that he was accepted.

As Warren once hoped, during his second semester at Columbia he registered for a class taught by Graham. From the beginning, classmates noticed that Warren was going to be the star of the classroom and as classmate Jack Alexander recalls whenever Graham asked his students a question Warren, "would be the first one to have his hand up and immediately start talking,". (10) Moreover, one of the most important principles of Graham's investing philosophy that he taught to the class was called intrinsic value. Graham explained to his class that some special cheap stocks have intrinsic value because they had assets worth more than their market value.

Graham would preach to his class that in such a situation the stock would increase over time to match its asset value. Also, he cautioned against "sexy" stocks because they were often overvalued. In contrast, he preferred the neglected companies that were undervalued. However, the main problem with this type of investing was that it could take a long time before the market realized the true value of a company and it is difficult to sum up all of the assets and liabilities a company has. Realizing this potential problem, Graham countered by using something called a margin of safety which would function by allowing room for errors in calculation as well as market lags. Even with potential problems that may arise with this type of investing, if one was talented in determining a company's intrinsic value and if the market did not excessively lag, it would prove to be a hell of an investing strategy. These lessons were perfected by Warren Buffet, who later took the lessons from the classroom, and applied it to the market. Another important principle of Graham's investing philosophy was being able to calculate a company's worth, which is different to how many people invested. Furthermore, Graham noted that a company's stock price is often overvalued and that stocks were worth what people thought they were worth, not necessarily the overall value of the business itself. In the end, Warren was the only student to ever get an A+ in Graham's class. He graduated from Columbia and his admiration for Graham only increased. Consequently, one day he went to Graham's investing firm and asked for a job; however, Graham turned him down because his firm only hired Jewish people. (11)

Warren the Investor

Finally Warren was done with college and now he needed a real job that was going to make him lots of money. Warren at this point was no richer that most Americans. His dreams and ambitions far outweighed his resources, but he had to find a way to become a millionaire by age 35, no matter what. So how did Warren go from being an average Joe, at least in terms of wealth to becoming one of the wealthiest men on earth? His total wealth today is around $58.5 billion, thus he must have made some good investments, obviously! (12) The truth is Warren faced the most difficult hurdles at the beginning right after college. To make money, one needed money or in other words, Warren would have to acquire funds to buy stock, but why would anyone give money to a kid that was in his early twenties. Warren needed to prove to others that he knew exactly what he was doing, so he could earn their trust. An important talent worth mentioning about Warren was his skill with numbers. He would read up about stocks endlessly throughout the day and he would remember what companies X's balance sheet looked like months and even years later. This talent, combined with his hard work, enabled Warren to get a good sense of where the market was going as well as which stocks were undervalued. Eventually, from his research Warren had become bullish in the market and the only problem was that he did not have the funds to match his outlook. He reminisces, "I was already running short of money to invest. If I was enthused about a stock I would have to sell something else to buy it. I had an aversion to borrowing money, but I got a loan for five thousand dollars or so from the Omaha National Bank. I was under twenty one and my dad had to cosign the loan." (13) Warren was confident in his talents, but only time would tell if he was making the right call in taking out loans to buy stock. As Warren became more involved in the buying and selling of stock he was also successful in getting people he knew to loan him money. His family members and a few friends trusted him with a limited amount of money, but he was still unsuccessful in rolling the "big fish" in. Also, as Warren recalls, "I was twenty- one. And I'd go around to all these people trying to sell stock, and when I'd get through they'd say, what does your father think?' I got that all the time." (14) Warren was talented, but he was young and inexperienced.

He desperately needed experience and connections to some wealthy people. Additionally, like he had done before he started researching into more and more companies, as he recalls, "I went through the Moody's Manual page by page. Ten thousand pages in the Moody's Industrial, Transportation, Bank and Finance Manual – twice. I actually looked at every business – although I didn't look very hard at some." (15) Consequently, Warren remembered financial information such as P/E ratio, number of outstanding shares and other information for about 100 companies. With this knowledge, Warren hoped to become successful in separating companies based on intrinsic value, marker price and potential. Next, one of the early companies Warren invested in was GEICO even though a lot of people advised him to stay away from the stock. At this point, Warren had great confidence in himself. He just needed people to trust him with their money.

Although Graham rejected Warren for a position in his company, Warren still kept in contact with his mentor, trading ideas and having friendly conversations. One day while he was in New York, he stopped by the firm to say hello to everyone, especially Graham and his partner Jerry Newman. Afterwards, as days past by he got a message from Graham and Newton noting that they would like to have him at their partnership. Hence, Warren got his dream job and also a chance to build up his experience, prestige, and connections. Moving forward at the age of 24, Warren had now earned an impressive $174,000. Furthermore, since entering Columbia with $9,800 he had earned 61% annually in the market! (16) At this point, Warren had successfully jumped some major hurdles: he proved to himself that he was knowledgeable in the market, he gained experience, and his prestige within Graham-Newman Corporation continually grew. After working for Graham for a while, Warren got some bad news. Graham, his mentor and boss, was going to retire, but Newman offered Warren a junior partnership, which Warren declined. Next, Warren went back in Omaha, and one of the first things he did was create his own firm called Buffets Associates, Ltd. Additionally, his family and friends helped him out enormously by putting serious cash in his company, Warren's sister invested $10,000, Doc Thompson forked up $25,000, his aunt Alice invested $35,000, Chuck Peterson his Wharton roommate added $5,000, Peterson's mother contributed $25,000 and finally a man named Dan, Warren's lawyer, pitched in $5,000. (17) Warren began by taking funds from friends and family members, but as he continued to make large amounts of money from the market, people started to show great interest. Additionally, whenever people asked the now retired Graham to invest their money for them, he directed them all to Warren. Moving forward Warren got really big, really fast and his company funds increased into the millions. The success kept coming and coming. For example, in 1954, a one-time investment of $1,000 in his second partnership was worth $2,407 just four years later. In contrast, the same amount of money invested the Dow Jones would have been worth $1,426. (18) The momentum never slowed, and Warren's partnerships and his capital got so big that he was now capable of buying huge stakes in small companies. Electing himself on the company board, he could then direct whole companies from his own managerial standpoint.

Berkshire Hathaway

Berkshire Hathaway was a textile company located in Massachusetts. The company had great success before World War One, but during the 1960's the company was seeing its profits decrease fast. (19) The company was losing market share, so why did Warren invest in the company after all? The reason that Warren invested in Berkshire Hathaway was because it was really cheap, according to its accounting numbers the company was worth $22 million as a business or $19.46 per share. However, the market value for the company at that time was around $7.50 per share. (20) Therefore, it made sense for Warren to buy the company. The problem was that Warren bought so many shares in the company he consequently became a major stakeholder of a company that was losing its competitive advantage. As it turned out, Berkshire Hathaway was not one of Warren's best investments, yet he chose to keep the name of the company long after the textile mill was closed. Often, people think that Berkshire was a great investment and that was the reason Warren kept the name as his investment company, but that is false. Berkshire, was a company similar to a veteran all-star basketball player, in that because it was past its prime, it was; consequently, cheap. However, in order for a business to make a return on their investment with a veteran player they would have to squeeze all that was left from this former all-star player, because ultimately the player was past his prime. Similarly, the case was true for Berkshire, and yet, Warren agreed to a long term contract with a player that annually had diminishing returns. Afterwards, everyone realized that the company was not going to stay competitive as a textile mill. Therefore, Warren changed the function of the company. After a while, the company was no longer going to be in the textile industry, it would move in the financial sector. Warren's Berkshire Hathaway started to buy insurance companies among other firms. In the end, Warren got the last laugh because although he invested in a company that was destined to fail, he managed to change the business model of the firm. It would eventually become profitable as a financial investment company.

Furthermore, it would be difficult to note all the investments Warren made under Berkshire because there were so many. Yet, one of the most interesting investments that Warren made was in the early 70's when he started to buy shares of The Washington Post Company. *The Post* was becoming one of the most influential media outlets in the nation. It was one of the first outlets to publish the *Pentagon Papers,* which was a huge top secret document detailing the scandal of how the government essential lied to the American people about the Vietnam War. Additionally, at that time President Nixon started to view *The Post* as an enemy because it published the *Pentagon Papers* and more importantly it did not stop publishing articles on the Watergate break-in. Hence, Nixon declared "war" against *The Post* using all his Presidential power to discredit the company. Furthermore, friends of Nixon, in order to get back at *The Post*, challenged the renewal of its two Florida television licenses, which accounted for a big segment of companies sales. (21) As a consequence, of Nixon using all his power to undermine *The Post*, the stock plunged from a high of $38 to a low of $14 per share. This was when Warren started to really buy huge amounts of the stock, as he recalls, "In 1973, the stock had gone down a lot, partly in response to the fact that Nixon administration had sort of declared war on *The Washington Post."* Warren added, "I mean, people were barreling out of the stock, even big institutional investors. The interesting thing is when we were buying that stock at $20, and you'd ask the people who were selling it how much the company was actually worth and they would say $100 a share. But they sold it anyway." (22) This is one of the fundamental differences between Warren and the typical "Wall Street investor". Warren is greedy when the market is fearful and is fearful when the market is greedy. Additionally, Warren does not believe in speculation. For example, he has a number that he thinks a company is worth say $10, and he will only buy under that, in contrast to other investors who don't truly know the value of a company The philosophy of buying undervalued stocks, such as *The Post* continued and he would make other investments annually. His success at Berkshire Hathaway is unprecedented, he kept making money! Next, just how successful did Berkshire Hathaway become? Well put it this way, in 1962 Warren was buying Berkshire stock at $7.50 a share and today Berkshire Hathaway stock is worth over $170,000. Thus, if one bought $45 dollars of Berkshire in 1962, today they would be worth more than a $1,000,000. (23)

The Legacy

The story of Warren Buffet is a fascinating one. It's a story of how a boy, born in the middle class in Omaha, Nebraska, became one of the richest individuals on earth. As noted, above there was something special about Warren from his early years. He started his little ventures of selling gum before the age of 10. Also, that was just one of dozens "cute" ventures he started. All in all, Warren, some would say, was molded to become a great businessman. His love of numbers enabled him to remember the fundamentals of 100s of companies, his love for business enabled him to start his own little businesses, in which he learned valuable lessons from an early age that he used later on in his life. His love for investing introduced him to Benjamin Graham, who would later become Warren's mentor and hero. His passion and ambition for investing made it possible for him to continuously research companies for enormously long hours. Early in his life Warren would research companies for about 14 hours a day (about 10 hours in the office, and then about 4 hours at home). Moreover, while there have been endless amounts of investments in Warren's life, the one most people remember is his investment in Berkshire Hathaway. Although not the best investment early on, Warren managed to make it one of the most prestigious companies on the planet today. While it is true that Warren was a great investor, it was Berkshire Hathaway that introduced him to the rest of the world. Berkshire Hathaway made Warren not just the local business genius in Omaha, but rather the face of sound investing all over the world.

To reiterate about just how important Warren has become in the financial industry it is important to note his involvement in the 2008 financial crises. As the crises got worse, investing companies, like Leman Brothers, made an attempt to get Warren to purchase some of the company's stock. However, Leman did not care much for the initial effect of the stock price. If Warren would buy stock, they wanted Warren's purchase of Leman to be published. In other words, in 2008, most of the investing companies had got involved in some risky investments. They were losing money off their high risk investments, and as their stock prices plunged they were hoping that if Warren got involved it would send a big security boost to other investors. (24) The idea was if Warren purchased stock in a company, one could be sure it was safe. In conclusion, Warren's life can interest just about anyone. Finally, from all the themes Warren could represent, I believe arguably the most important one is that everyone has their special skills, and it is important that we sharpen those skills, so we can also apply them to something we love and have ambitions for.

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